

# IOWA FIDUCIARY INSTRUCTIONS FOR 1997

## GENERAL INSTRUCTIONS

### Which Return to File

An Iowa Fiduciary Return must be filed for estates, trusts and other entities which are taxed as trusts for federal income tax purposes.

An Iowa Individual Income Tax Return shall be filed for:

- 1) The decedent, if the income during the tax period ending with death meets the Iowa resident or nonresident filing requirements. Note: This return must be prepared with the same method of accounting last used by the decedent.
- 2) Wards in guardianships or conservatorships.
- 3) Resident and nonresident beneficiaries of estates or trusts, if the minimum filing requirements are met.

### Required Documents

- 1) A federal fiduciary return, Fed 1041, and appropriate schedules must accompany each fiduciary return filed.
- 2) A copy of the decedent's will must accompany the initial fiduciary return if the Department has not previously received a copy for inheritance tax purposes.
- 3) A copy of inter vivos trust instruments must be filed with the initial return for the trust.
- 4) If the will has been filed in Iowa probate proceedings, then this instrument is not required to be filed with the initial return of testamentary trusts.
- 5) If the probate inventory has not been filed in Iowa probate proceedings at the time the initial fiduciary return is filed, a statement should accompany the return advising when the inventory will be filed.
- 6) A probate inventory for a foreign estate should be filed with the return if an ancillary administration has not been opened in Iowa.

Note: The final fiduciary return serves as an application for a certificate of acquittance. You must check the box on the face of the return requesting an income tax certificate of acquittance.

Also Note: Expenses of administration, executors' commissions attorney fees, etc. are not allowable as an income tax deduction on form IA 1041 if they were allowed as a deduction in computing the taxable estate for Federal estate tax purposes.

### When to File

The return with payment is due within four calendar months after the end of the taxable year. A fiduciary return must be filed for every accounting period in which there is taxable income of \$600 or more and for the final accounting period regardless of income.

### Where to File

Mail the fiduciary return to:

Fiduciary Return Processing  
Iowa Department of Revenue and Finance  
P.O. Box 10467  
Des Moines, Iowa 50306

## PENALTY

### Penalty for Failure to Timely File a Return

A penalty of 10% will be added to the tax due for failure to timely file a return if the return is not remitted by the due date and at least 90% of the correct tax is not paid by the due date. The penalty can only be waived under limited circumstances.

**Penalty for Failure to Timely Pay the Tax Due:** A penalty of 5% will be added to the tax due if the return was filed timely but at least 90% of the correct tax is not paid by the due date. The penalty can only be waived under limited circumstances.

Where the failure to file penalty and the failure to pay penalty are applicable, the failure to file penalty will take precedence.

**Federal Tax Audits** The Department has six (6) months to make a determination of the correct tax after receipt of sufficient written notice of the final disposition of any matter between the taxpayer and the Internal Revenue Service. A copy of the federal document showing the final disposition of federal adjustments must be attached to the notice in order to begin the six-month period. TO CONSTITUTE NOTICE "SUFFICIENT TO INFORM THE DEPARTMENT" THE NOTICE MUST BE SUPPLIED UNDER SEPARATE COVER AND NOT AS A PART OF THE RETURN FOR THE CURRENT PERIOD.

### Distributions

A distribution of property-in-kind to a beneficiary entitled to the income made after June 1, 1984 in taxable years ending after that date is subject to an election by the fiduciary to recognize any gain or loss in the estate or trust. The election is an affirmative act and failure to indicate whether or not the election is made shall be construed as an election by the fiduciary not to recognize any gain or loss on the distribution. The election applies to all distributions made during the taxable year.

## RETURN INSTRUCTIONS

The following instructions are for completing the Iowa fiduciary return. Detailed instructions are provided for lines requiring special attention.

### Return Identification

Enter the beginning and ending dates if the return is for a fiscal year. Also, enter the Department of Revenue and Finance Number, if one is assigned, and the federal identification number.

### Income (Lines 1 - 10)

All income from the probate property owned by the decedent must be reported until the property is sold, distributed, or disposed of. Income derived from probate property should also be reported if the income is deposited in an estate bank account and expenses relating to the probate property are paid from estate funds and controlled by the fiduciary. The income derived from non-probate property must be reported on the beneficiaries individual income tax return.

Line 2. INTEREST. Although exempt from federal tax, interest on state and municipal securities is taxable to Iowa with the following exceptions:

Iowa Board of Regents Bonds  
Iowa College Super Savings Plans Bonds  
Iowa Municipality Urban Renewal Bonds  
Low Income Housing Bonds  
Warehouse Project Revenue Bonds  
Sewage Treatment Works Revenue Bonds  
Beginning Farmer Loan Program Bonds  
Underground Storage Tank Fund Revenue Bonds  
Soil Conservation District Bonds  
Aviation Authority Bonds  
E911 Emergency Telephone Service Program Bonds  
County Health Center Bonds  
Iowa Rural Water District Revenue Bonds  
Quad Cities Interstate Metropolitan Authority Bonds  
Municipal Investment Recovery Program Bonds  
Local Government Flood Damage Program  
Prison Infrastructure Revenue Bonds

Lines 6 and 7. REPORTABLE CAPITAL GAIN AND DEDUCTION. On line 6, report 100% of the net gain or loss from transactions reported on schedule D, federal form 1041. On line 7 list the gain which is excluded from federal taxable income under the provisions of 641(c) Internal Revenue Code.

### Deductions (Lines 11 - 23)

Schedule D, side 2, must be completed to itemize interest expenses, taxes, and other allowable deductions.

Line 20. DISTRIBUTION TO BENEFICIARIES. All income for the final accounting period of an estate or trust must be distributed to the beneficiaries. The estate or trust cannot accumulate this income and make distribution to the beneficiaries on a tax paid basis. Any tax liability is the obligation of the beneficiaries of the estate or trust.

Trusts making an accumulation distribution must attach a copy of Federal Schedule J, reporting the amount of Iowa income tax distributed to each beneficiary.

#### **Resident Computed Tax (Lines 24 - 32)**

Lines 24 through 32 are to be completed for resident estates and trusts. Nonresidents complete Schedule C using special instructions provided on this page.

Line 24. Tax is computed from tax rate schedule on page 2 of the return.

Line 25. IOWA LUMP SUM TAX. If federal form 4972 (5-year/10-year averaging method) was used to compute federal tax on all or part of a lump sum distribution, enter 25% of the federal tax on form 4972. A copy of the federal form 4972 must be attached.

Line 26. IOWA MINIMUM TAX. The Iowa Minimum Tax is a tax imposed on items, not subject to regular income tax, classed as "Tax Preference Items". You may be subject to the Iowa Minimum Tax even if you were not subject to the Federal Minimum Tax. For complete information on the Iowa Minimum Tax, see Form IA 6251.

Line 28. PERSONAL EXEMPTION CREDIT. A \$20 exemption credit is allowed on all fiduciary returns regardless of whether the return covers less than a full tax year.

Line 29. OUT-OF-STATE TAX CREDIT. Iowa estates and trusts that have income from non-Iowa sources must report this income to Iowa for taxation. If income tax has been paid on the non-Iowa income to another jurisdiction, a credit for the tax paid will be allowed and computed in the same manner as for Iowa individual tax. Nonresident estates and trusts are not eligible for an out-of-state credit.

Line 30. MOTOR FUEL TAX CREDIT. A credit may be claimed for Iowa motor vehicle fuel tax paid on fuel used off-highway in an unlicensed vehicle. If the ordinary income during the accounting period is completely or partially accumulated and tax is the obligation of the fiduciary, the credit is claimed on line 30. If the ordinary income is fully distributed, credit cannot be claimed on the fiduciary return. Instead the beneficiaries are entitled to claim their pro-rata share of the credit on their individual income tax returns. The fiduciary must provide to each beneficiary an IA4136 Motor Fuel Credit and a supplemental schedule showing the distribution of credit among the beneficiaries, allowing the beneficiary to claim the credit.

#### **Line 31. OTHER CREDITS**

Research Activities Credit - The fiduciary may be eligible for this credit on the Iowa fiduciary return if you qualified for the federal credit for increasing research activities. For details on qualification for the credit and how to compute the credit see Form IA 128.

New Jobs Credit - If the fiduciary started a new business or increased employment of an existing business by ten percent after June 30, 1985 and the new or increased employment was covered by a 280B agreement with a vocational school or area community college, the fiduciary may qualify for the new jobs credit. Form IA 133 has information about the qualifications for the credit as well as how the credit is computed.

Minimum Tax Carryforward Credit - The fiduciary may be eligible for this credit if alternative minimum tax was paid in 1987 or following years based upon tax preferences other than charitable contributions of appreciated property. See form IA 8801 for instructions. If a minimum tax credit is claimed, a copy of the completed form IA 8801 must be attached.

Seed Capital Credit - The fiduciary may qualify for this credit if the fiduciary invested in the initial offering of securities by a qualified business or seed capital fund after April 26, 1990. The credit is 10% of the amount of the investment. A signed statement from the qualifying business or seed capital fund verifying the investment must be attached to this return.

Enter the total credit amounts from Forms IA 128, IA 133, IA 8801 and the seed capital credit on line 31.

Line 32. Add the total credits from lines 28 through 31 and enter here.

#### **Tax Due**

Line 33. TAX LIABILITY. Residents subtract line 32 from line 27. Nonresidents enter amount from line 20, Schedule C.

Line 34. EXTENDING THE TIME TO FILE THE IOWA FIDUCIARY RETURN. If 90% of the correct amount due is paid by the due date of the return, then no penalty will be assessed provided that the return is filed within six months of the due date. Any tax elections made on the return will be considered timely if the return is filed no later than six months from the due date. **If additional payment is necessary in order to meet the 90% requirement, you must make payment using the Iowa Fiduciary Tax Payment Voucher (63-007).** The previous extension form (60-027) is now used for inheritance tax purposes only.

Line 35. REFUND. If line 34 is greater than line 33 enter the difference. This is the amount to be refunded to you.

Line 36. AMOUNT DUE. If line 34 is less than line 33 enter the difference and pay this amount in full with your return. Your check for the amount due should be made out to "Treasurer, State of Iowa".

### **NONRESIDENT INSTRUCTIONS**

**Completion of Fiduciary Return.** Nonresidents should only list Iowa source income and deductions on page 1 of the return. Iowa source income includes, but is not limited to, income from an Iowa business, farm, or other real estate, wages, fees or commissions earned in Iowa. Income from bank accounts, stocks, bonds or other intangible personal property is assigned to Iowa only to the extent that it is from a business, trade or profession carried on within Iowa.

**Schedule C Computation of Nonresident Tax.** Schedule C computes Iowa tax liability for nonresident estates and trusts.

Lines 1 - 8. Computation of federal adjusted income.

Lines 9 - 11. Computation of tax.

Line 12. NONRESIDENT PERCENTAGE is computed by dividing the amount on line 23, page 1, by the amount on line 8, Schedule C.

Line 13. MULTIPLY LINE 11 BY PERCENTAGE ON LINE 12 to compute tax after proration.

Line 14. IOWA LUMP SUM TAX. If a lump sum distribution reported on federal form 4972 was received as a result of Iowa earnings, enter 25% of the tax from federal form 4972 and attach Schedule 4972.

Line 15. IOWA MINIMUM TAX. If the fiduciary has tax preference items attributable to Iowa sources, complete form IA 6251 and enter the resulting Iowa minimum tax.

Line 16. BALANCE. Add lines 13, 14, and 15.

Line 17. MOTOR FUEL TAX CREDIT. Enter the amount of motor vehicle fuel tax credit from line 7 of form IA 4136.

Line 18. OTHER CREDITS. See instructions for line 31 to determine total other credits to be entered on this line.

Line 19. TOTAL CREDITS. Add lines 17 and 18.

Line 20. TAX LIABILITY. Subtract line 19 from line 16. Enter the balance on line 20 and on line 33 of page 1.

**Nonresident Withholding.** If the nonresident beneficiary has not filed a declaration of Iowa estimated income tax and paid the estimate in full, the fiduciary of an estate or trust, as a withholding agent, must withhold Iowa income tax at the rate of 5% from the distribution of taxable Iowa source income to a nonresident beneficiary. Beneficiaries must be furnished with copies of W-2's showing withholding and identification numbers of the estate or trust. Nonresident receivers of proceeds from sales of agricultural commodities can avoid withholding if the payor of the proceeds provides the Department with a statement of the proceeds paid at the end of the tax year. These nonresidents should make quarterly estimate payments using form IA 1040ES.